



State of Utah

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2005

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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INTRODUCTION

The following is a discussion and analysis of the State of Utah's financial performance and position, providing an overview of the State's activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and with the State's financial statements that follow this section.

HIGHLIGHTS

Government-wide

- The State's net assets increased \$1.012 billion or 9.1 percent over the prior year. Net assets of governmental activities increased \$818.1 million or 8.5 percent due to an improving economy and active resource management. Net assets of business-type activities also grew significantly, increasing by \$194.1 million or 12.5 percent, primarily due to revenues from employers' unemployment premiums exceeding benefit payments for the first time in several years.

Fund Level

- Combined tax revenues were 10.3 percent higher in the General Fund and 15.2 percent higher in the Uniform School Fund than the prior year as Utah's economy showed continued signs of improvement. The State's economic slowdown in 2002 and 2003 and subsequent improvement in fiscal years 2004 and 2005 is similar to the trend of the national economy.
- The General Fund and Uniform School Fund ended the fiscal year with "surplus" from unreserved and undesignated sources of \$63.8 million and \$108.1 million, respectively. By law, half of the General Fund surplus, or \$31.9 million, was transferred to the Budget Reserve Account ("Rainy Day Fund"). Twenty-five percent of the Uniform School Fund surplus, or \$27.0 million was transferred to the Education Budget Reserve Account.

Long-term Debt

- The State's long-term bonded debt increased a net \$125.6 million or 3.7 percent. The increased debt was issued to fund highway and capital facility construction, to advance refund bonds, and to fund student loan programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes the State's Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements – Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities beginning on page 27 together comprise the *government-wide financial statements*. These statements provide a broad overview with a long-term focus of the State's finances as a whole and are prepared using the *full-accrual* basis of accounting, similar to private-sector companies. This means all revenues and expenses are recognized regardless of when cash is received or spent, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. Over time, increases and decreases in net assets measure whether the State's overall financial condition is getting better or worse. In evaluating the State's overall condition, however, additional non-financial factors should be considered such as the State's economic outlook, changes in its demographics, and the condition of its capital assets and infrastructure. The government-wide statements report three activities:

Governmental Activities – Most of the State's basic services fall under this activity including education, transportation, public safety, courts, corrections, health, and human services. Taxes and federal grants are the major funding sources for these programs.

Business-type Activities – The State operates certain activities much like private-sector companies by charging fees to customers to cover all or most of the costs of providing the goods and services. Student loans, unemployment compensation, water project loan programs, and liquor sales are examples of business-type activities.

Component Units – Several entities are legally separate from the State, yet the State remains financially accountable for them. Colleges and Universities, Utah Housing Corporation, and Utah State Fair Corporation are examples of component units.

Fund Financial Statements – Reporting the State's Most Significant Funds

The fund financial statements beginning on page 32 provide detailed information about individual major funds, not the State as a whole. A fund is a group of related accounts that the State uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the State's funds are divided into three types, each of which uses a different accounting approach.

Governmental Funds – Most of the State's basic services are accounted for in governmental funds and are essentially the same functions reported as *governmental activities* in the government-wide statements. Governmental funds use the *modified accrual* basis of accounting, which measures the flow of current financial resources that can be converted to cash and the balances left at year end that are available for future spending. This *short-term* view of the State's financial position helps determine whether the State has sufficient resources to cover expenditures for its basic services in the near future.

Proprietary Funds – Proprietary funds include enterprise funds and internal service funds and account for state activities that are operated much like private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the *full-accrual* basis of accounting. Activities whose customers are mostly outside of state government (e.g., water project loans to local governments) are accounted for in *enterprise funds* and are the same functions reported as *business-type activities*. Thus, the *enterprise fund* financial statements reinforce the information reported for *business-type* activities in the government-wide statements, but provide more detail and additional information, such as cash flows. Activities whose customers are mostly other state agencies (e.g., motor pool) are accounted for in *internal service funds*. The internal service fund activities are consolidated with the governmental activities in the government-wide statements because those services predominantly benefit governmental rather than business-type activities.

Fiduciary Funds – Fiduciary funds account for assets that, because of trust relationships, can be used only for trust beneficiaries. The State is responsible for ensuring these assets are used for their intended purposes. Fiduciary funds use *full-accrual* accounting but are *not* included in the government-wide statements because their assets are not available to finance the State's own programs.

Reconciliation between Government-wide and Fund Statements

The financial statements include schedules on pages 34 and 38 that reconcile and explain the differences between the amounts reported for *governmental activities* on the government-wide statements (full-accrual accounting, long-term focus) with amounts reported on the *governmental* fund statements (modified accrual accounting, short-term focus). Following are some of the major differences between the two statements:

- Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements but are expenditures on the governmental fund statements.
- Bond proceeds result in liabilities on the government-wide statements but are other financing sources on the governmental fund statements.
- Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements but are deferred revenue on the governmental fund statements.

Notes to the Financial Statements

The notes beginning on page 56 provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information (RSI)

Following the Basic Financial Statements are budgetary comparison schedules for major funds with legally adopted budgets and condition assessment data related to infrastructure. RSI further supports the information in the basic financial statements.

Supplementary Information

Supplementary Information includes combining statements for the State's nonmajor governmental, nonmajor proprietary and fiduciary funds and for nonmajor discretely presented component units. This section also includes schedules which compare budgeted expenditures to actual results at the legal level of control, which is generally the line item level of the *Appropriation Acts*.

Adjustments to Beginning Net Assets

As described in Note 2 of the financial statements on page 63, beginning net assets of governmental activities were adjusted as noted in the schedule on the following page. To enhance comparability, all amounts presented for fiscal year 2004 in this discussion and analysis were revised, where applicable, to reflect these changes, as if the changes had been made in the prior year.

Adjustments to Beginning Net Assets <i>(in millions)</i>	Governmental Activities	Business-type Activities
Net increase in capital assets	\$ 12.7	\$ —
Reclassification from governmental activities to a discrete component unit ...	(11.4)	—
Elimination of certain federal receivables	(98.9)	—
Elimination of postemployment liability	240.5	—
Recognition of a liability with the U.S. Environmental Protection Agency.....	(8.0)	—
Change in amortization methods	—	2.5
Total adjustments to beginning net assets.....	\$ 134.9	\$ 2.5

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's total net assets increased \$1.012 billion or 9.1 percent in fiscal year 2005. In comparison, net assets in the prior year increased \$530.7 million or 5.1 percent. This increase in net assets resulted from an improving economy and the active management of state resources. Approximately \$259.1 million of the increase was in net capital assets as the State's investment in highways and buildings exceeded depreciation and net additional debt to finance projects. Total restricted net assets increased \$402.2 million or 19.7 percent over the prior year. The \$281.3 million increase in restricted net assets of governmental activities resulted primarily from an increase of \$283.9 million in tax revenues for public education offset by a \$135.9 million increase in public education expenses. In addition, there was an increase in net earnings of \$102.1 million in the permanent Trust Lands Fund. Restricted net assets increased in business-type activities primarily due to unemployment compensation revenues exceeding related claims by \$100.6 million. The increase of \$282.0 million in unrestricted net assets of governmental activities was primarily due to increases in unrestricted carry-forward balances in the General Fund and other governmental funds of \$165.5 million and \$66.0 million, respectively. The increase in unrestricted net assets of business-type activities was the result of normal operations and is primarily due to the State adding additional capital to loan funds from sales taxes and mineral lease revenues. Net assets of business-type activities generally can be used only to finance the business-type activities' ongoing operations.

State of Utah Net Assets as of June 30 *(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 3,358,120	\$ 2,847,758	\$ 3,375,986	\$ 3,024,147	\$ 6,734,106	\$ 5,871,905
Capital Assets	9,860,641	9,524,473	62,154	57,726	9,922,795	9,582,199
Total Assets	13,218,761	12,372,231	3,438,140	3,081,873	16,656,901	15,454,104
Current and Other Liabilities ...	699,180	645,685	39,972	37,300	739,152	682,985
Long-term Liabilities	2,113,602	2,138,648	1,648,535	1,489,054	3,762,137	3,627,702
Total Liabilities	2,812,782	2,784,333	1,688,507	1,526,354	4,501,289	4,310,687
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	8,197,279	7,942,495	28,419	24,141	8,225,698	7,966,636
Restricted	1,518,523	1,237,258	928,115	807,224	2,446,638	2,044,482
Unrestricted	690,177	408,145	793,099	724,154	1,483,276	1,132,299
Total Net Assets	\$ 10,405,979	\$ 9,587,898	\$ 1,749,633	\$ 1,555,519	\$ 12,155,612	\$ 11,143,417
Percent change in total net assets from prior year	8.5 %		12.5 %		9.1 %	

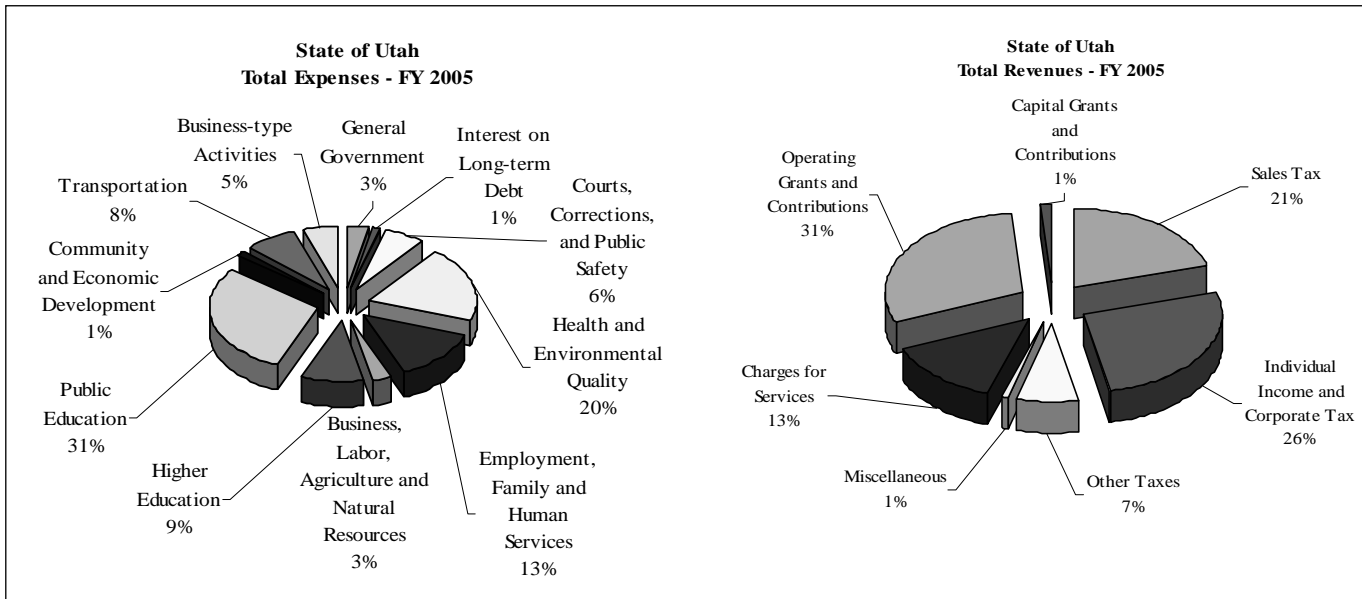
The largest component of the State's net assets, 67.7 percent, reflects investments in capital assets (e.g., land, buildings, equipment, roads, and other infrastructure) less the outstanding debt issued to finance those assets. As capital assets, these resources are not available for future spending, nor can they be readily liquidated to pay off their related liabilities. Resources needed to repay capital-related debt must be provided from other sources.

Restricted net assets comprise 20.1 percent of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted by the *Constitution of Utah* include income and corporate taxes that can be used only for public and higher education costs and for motor fuel taxes that can be used only for transportation expenses.

The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations, though certain laws and internally imposed designations of resources further limit the purposes for which many of those net assets may be used.

The schedule below and the charts on the following page summarize the State's total revenues, expenses, and changes in net assets for fiscal year 2005.

State of Utah Changes in Net Assets for the Fiscal Year Ended June 30 <i>(Expressed in Thousands)</i>							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004 to 2005
Revenues							
General Revenues:							
Taxes	\$ 4,519,789	\$ 4,041,389	\$ 14,874	\$ 14,402	\$ 4,534,663	\$ 4,055,791	11.8 %
Other General Revenues	65,481	88,977	4,070	2,089	69,551	91,066	(23.6)
Program Revenues:							
Charges for Services	615,844	544,936	507,583	416,828	1,123,427	961,764	16.8
Operating Grants and Contributions	2,436,116	2,347,065	65,173	92,141	2,501,289	2,439,206	2.5
Capital Grants and Contributions	124,836	105,149	—	—	124,836	105,149	18.7
Total Revenues	7,762,066	7,127,516	591,700	525,460	8,353,766	7,652,976	9.2
Expenses							
General Government	240,091	187,544	—	—	240,091	187,544	28.0
Human Services and Youth Corrections	573,154	576,276	—	—	573,154	576,276	(0.5)
Corrections, Adult	195,716	197,043	—	—	195,716	197,043	(0.7)
Public Safety	162,922	150,772	—	—	162,922	150,772	8.1
Courts	98,319	97,894	—	—	98,319	97,894	0.4
Health and Environmental Quality	1,461,016	1,341,059	—	—	1,461,016	1,341,059	8.9
Higher Education	694,732	781,468	—	—	694,732	781,468	(11.1)
Employment and Family Services	409,334	384,457	—	—	409,334	384,457	6.5
Natural Resources	121,714	119,188	—	—	121,714	119,188	2.1
Community and Economic Development	86,065	88,339	—	—	86,065	88,339	(2.6)
Business, Labor, and Agriculture	84,992	72,693	—	—	84,992	72,693	16.9
Public Education	2,169,071	2,033,153	—	—	2,169,071	2,033,153	6.7
Transportation	579,914	538,525	—	—	579,914	538,525	7.7
Interest on Long-term Debt	76,382	75,935	—	—	76,382	75,935	0.6
Student Assistance Programs	—	—	95,495	82,406	95,495	82,406	15.9
Unemployment Compensation	—	—	142,632	242,828	142,632	242,828	(41.3)
Water Loan Programs	—	—	8,648	6,730	8,648	6,730	28.5
Other Business-type Activities	—	—	141,374	131,164	141,374	131,164	7.8
Total Expenses	6,953,422	6,644,346	388,149	463,128	7,341,571	7,107,474	3.3
Excess Before Transfers	808,644	483,170	203,551	62,332	1,012,195	545,502	
Transfers	9,437	13,408	(9,437)	(13,408)	—	—	
Change in Net Assets	818,081	496,578	194,114	48,924	1,012,195	545,502	
Net Assets – Beginning as Adjusted	9,587,898	9,091,320	1,555,519	1,506,595	11,143,417	10,597,915	
Net Assets – Ending	\$ 10,405,979	\$ 9,587,898	\$ 1,749,633	\$ 1,555,519	\$ 12,155,612	\$ 11,143,417	9.1 %



Changes in Net Assets

This year the State received 54.3 percent of its revenues from state taxes and 31.4 percent of its revenues from grants and contributions, mostly from federal sources. In the prior year, state taxes accounted for 52.9 percent and grants and contributions were 33.2 percent of total revenues. Charges for goods and services such as licenses, permits, liquor sales, state parks, and court fees, combined with other miscellaneous collections, comprised 14.3 percent of total revenues in fiscal year 2005, compared with 13.9 percent in fiscal year 2004.

Governmental Activities

The State's total governmental revenues from all sources increased \$634.6 million or 8.9 percent. Tax revenues increased \$478.4 million or 11.8 percent. This increase in taxes reflects a continued improvement in economic conditions and is similar to the increase at the fund level. However, due to differences in measurement focus, timing of collections, and lack of historical accrued tax information, the increase at the government-wide level should not be used to predict future increases at the fund statement or budget level. With the exception of higher education and general government expenses, other significant changes in governmental activities' revenues and expenses mirror the changes in the General Fund at the fund level. For further discussion of these changes, see the section entitled "General Fund" on page 20. For fiscal year 2005, higher education expenses decreased by \$115.2 million compared to the prior year, as the rate of completion of higher education building projects returned to levels prior to 2004. The increase in general government expenses of \$52.5 million was primarily due to more non-capital outlay spending than in the prior year.

The table on the following page shows to what extent the State's governmental activities relied on taxes and other general revenues to cover all of their costs. For fiscal year 2005, state taxes and other general revenues covered 54.3 percent of expenses. The remaining \$3.78 billion or 45.7 percent of the total expenses were generated through charges for services and grants.

State of Utah
Net Cost of Governmental Activities
for the Fiscal Year Ended June 30
(Expressed in Thousands)

	Program Expenses	Less Program Revenues	Net Program Costs		Program Revenues as a Percentage of Program Expenses	
	2005	2005	2005	2004	2005	2004
General Government	\$ 240,091	\$ (211,114)	\$ 28,977	\$ (3,556)	87.9 %	101.9 %
Human Services and Youth Corrections	573,154	(295,389)	277,765	294,438	51.5	49.3
Corrections, Adult	195,716	(2,954)	192,762	191,740	1.5	4.0
Public Safety	162,922	(97,840)	65,082	61,225	60.1	59.7
Courts	98,319	(47,120)	51,199	65,939	47.9	33.7
Health and Environmental Quality	1,461,016	(1,143,308)	317,708	260,628	78.3	80.6
Higher Education	694,732	(1,626)	693,106	780,429	0.2	0.1
Employment and Family Services	409,334	(360,374)	48,960	42,736	88.0	89.0
Natural Resources	121,714	(75,072)	46,642	41,738	61.7	65.6
Community and Economic Development	86,065	(43,473)	42,592	46,465	50.5	47.3
Business, Labor, and Agriculture	84,992	(68,338)	16,654	8,798	80.4	87.9
Public Education	2,169,071	(446,394)	1,722,677	1,630,847	20.6	20.0
Transportation	579,914	(383,794)	196,120	164,305	66.2	69.7
Interest on Long-term Debt	76,382	—	76,382	75,935		
Total Governmental Activities	\$ 6,953,422	\$ (3,176,796)	\$ 3,776,626	\$ 3,661,667	45.7 %	45.1 %

Business-type Activities

Revenues from the State's business-type activities increased \$66.2 million or 12.6 percent from the prior year. This increase is largely due to an increase in collections in the Unemployment Compensation Fund of \$32.8 million as higher claims in recent years resulted in increased employer taxes of \$62.8 million, offset by lower federal reimbursements. Because Utah's employment situation improved over the prior year, unemployment benefit claims expenses dropped \$100.2 million or 41.3 percent. This decrease was the primary reason for the overall decrease in business-type activities' expenditures of \$75.3 million.

All of the State's business-type activities operate from program revenues, except for the Water Loan Programs and the Agriculture Loan Fund that by law receive dedicated sales taxes and the Community Impact Loan Fund that receives federal mineral lease revenues to provide additional capital for loans. Accounting standards require unemployment taxes that are collected from employers and deposited in the Unemployment Compensation Fund be reported as charges for services rather than taxes. Therefore, taxes in the business-type activities are comprised entirely of sales taxes in the water and agriculture loan programs.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances

At June 30, 2005, the State's governmental funds reported combined ending fund balances of \$2.375 billion. Of this amount, \$1.311 billion or 55.2 percent is reserved for specific programs by state law, by external constraints, or by contractual obligations. Unspent bond proceeds, balances of restricted accounts, and agencies' nonlapsing balances are included in reserved fund balance. An additional \$682 million or 28.7 percent of total fund balances has been designated through internally imposed limitations on uses of certain funds. Note 11 on page 94 provides more details about reserved and designated fund balances at June 30, 2005. The remaining \$382 million or 16.1 percent of fund balance is available for appropriation for the general purposes of the funds.

State of Utah
Governmental Fund Balances as of June 30, 2004
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Trust Lands Fund	Nonmajor Funds	Total
Reserved	\$ 262,360	\$ 62,834	\$ 46,488	\$ —	\$ 594,251	\$ 344,573	\$ 1,310,506
Unreserved Designated	366,992	262,614	45,560	635	—	5,950	681,751
Unreserved Undesignated	24,627	81,046	114,001	183,815	—	(21,121)	382,368
Total	\$ 653,979	\$ 406,494	\$ 206,049	\$ 184,450	\$ 594,251	\$ 329,402	\$ 2,374,625
Percent change from prior year ..	34.6 %	29.9 %	(8.9)%	(15.2)%	20.7 %	51.8 %	21.7 %

General Fund

During fiscal year 2005, the General Fund's total fund balance increased \$168.0 million or 34.6 percent. This increase was due in large part to sales tax revenues coming in \$44.5 million greater than budgeted and to \$74.6 million being set aside in the budget and designated by the Legislature for fiscal year 2006 appropriations. In contrast, in the prior year, the Legislature designated only \$53.0 million for the next year's appropriations. The General Fund ended fiscal year 2005 with a "surplus" from unreserved and undesignated sources of \$63.8 million. However, half, or \$31.9 million, was transferred by law to the Budget Reserve Account ("Rainy Day Fund") and included in designated fund balance, and an additional \$7.3 million was carried forward by law for other purposes as designated for specific appropriation in 2006. As a result, the General Fund ended the year with \$24.6 million in unreserved/undesignated fund balance. Miscellaneous changes resulting from other designated and reserved sources account for the remaining change in fund balance. The Budget Reserve Account ended fiscal year 2005 with a balance of \$105.6 million.

Total General Fund revenues increased \$276.0 million or 7.1 percent from the prior year. Total tax collections increased \$177.8 million or 10.3 percent. The major positive changes in tax revenues were in sales tax, which increased \$143.3 million or 9.4 percent as Utah's economy continues to improve; and in oil, gas, and mining severance tax, which increased \$22.2 million or 52.1 percent. The tax revenue that saw the greatest decrease was inheritance tax, which decreased \$7.2 million or 69.6 percent from the prior year. Federal funding was the largest single factor in increasing non-tax revenues for the fiscal year, as federal mineral lease revenues increased \$15.5 million or 23.0 percent, driven by higher oil prices; and federal contracts and grants climbed \$35.0 million or 2.0 percent from the prior year, driven by demand for services and higher costs.

Total General Fund expenditures increased by \$241.4 million or 6.4 percent. This fiscal year's increase in expenditures is evidence of a continued high demand for government services. The following areas were impacted most:

- *Health and Environmental Quality* – Total expenditures in this category jumped \$116.0 million, primarily due to increased Medicaid program costs resulting from increased caseloads and pharmaceutical costs.
- *Higher Education* – Total expenditures in this category were up \$36.7 million, primarily due to additional state appropriations of new state funds for employee health, dental and retirement rate increases; salary increases; and enrollment growth.
- *Human Services and Youth Corrections* – Total expenditures in this category increased \$24.4 million or 4.4 percent, largely due to increased funding for services for people with disabilities and for child and family services.

Budgetary Highlights – General Fund

The Legislature adopted the initial fiscal year 2005 budget during the 2004 General Session. The original General Fund budget at the start of fiscal year 2005, excluding department-specific revenue sources such as federal grants, departmental collections, and including miscellaneous transfers, was 5.1 percent higher than the final fiscal year 2004 budget. The Legislature also had to address critical and mandated program increases, such as providing the State's matching share of projected increases in caseloads and pharmacy inflation for the Medicaid program. Other increases included funding increased health, dental, and retirement rates for employees.

The budget was again addressed during the 2005 General Session of the Legislature (January to March 2005). General revenue estimates had increased \$100.5 million over those adopted in the 2004 General Session primarily due to increased revenue estimates of sales and use tax. Increased revenue estimates and other additional miscellaneous revenue sources allowed the Legislature to designate \$74.6 million of expected excess revenue for fiscal year 2006 appropriations.

Final budgets of department-specific revenue sources increased over original budgets mostly due to an increase in federal mineral lease revenues and miscellaneous revenues due to intrafund transactions. Increased federal funds and corresponding expenditures resulted in the majority of the increase between original and final expenditure budgets. Final budgets for many of the departmental-specific revenue sources and related expenditures such as federal grants, departmental collections, and miscellaneous revenues, are generally revised based on actual collections. The difference between final budgeted expenditures and actual expenditures is primarily due to nonlapsing and unspent restricted funds that will be carried forward to the next year. However, \$1.1 million of unspent budgeted dollars were lapsed back to the General Fund by agencies.

Uniform School Fund

The Uniform School Fund's fund balance increased \$92.6 million or 29.5 percent from the prior year. Corporate tax receipts increased \$43.4 million or 26.2 percent compared to the prior year, individual income tax receipts increased \$239.8 million or 14.1 percent, and federal funding increased by \$33.3 million or 10.7 percent. Expenditures for public education increased by \$130.9 million or 6.4 percent, as the Legislature increased the budget for enrollment growth and provided for increased costs related to benefits for educators and staff. In addition, the Legislature transferred out approximately \$166.1 million more than in the prior year, primarily for higher education programs. The Uniform School Fund ended the year with a "surplus" from unreserved and undesignated sources of \$108.1 million. Of that amount, \$27.0 million or 25.0 percent was transferred by law to the Education

Budget Reserve Account, resulting in a final unreserved and undesignated fund balance of \$81.0 million. Established by the Legislature in 2003, the Education Budget Reserve ended fiscal year 2005 with a balance of \$40.5 million.

Transportation Fund

Fund balance in the Transportation Fund decreased \$20.0 million or 8.9 percent from the prior year. Motor and special fuels tax revenue increased by \$8.6 million or 2.6 percent. Federal aeronautics revenue increased \$8.6 million or 33.3 percent largely due to completed work on local government airport projects.

Total expenditures increased \$65.7 million or 10.7 percent, primarily in construction expenditures. Authorized federal funding for highway construction remains relatively stable from year to year. However, the spending of state and federal revenue reflects the timing of highway construction projects, which is impacted by a variety of circumstances such as environmental studies or weather. Also, the Department of Transportation has discretion on allocating federal funds among projects, which impacts the amount of federal revenue reported in the Transportation Fund and Centennial Highway Fund.

Centennial Highway Fund

Fund balances in the Centennial Highway Fund decreased by \$33.0 million or 15.2 percent from the prior year. Revenues in the fund increased \$11.5 million or 18.6 percent, mostly due to federal revenues on applicable federal participating highway projects coming in \$9.9 million or 28.8 percent higher than in the previous year. Expenditures in the fund decreased by \$44.7 million or 22.6 percent, primarily due to fewer bond proceeds being spent on highway projects in fiscal year 2005 than in the prior year.

Trust Lands Fund

The fund balance of the permanent Trust Lands Fund increased by \$102.1 million or 20.7 percent due to revenues generated from land use, sales of trust lands, and investment income. The permanent fund also generated \$13.9 million of cash investment earnings for the Uniform School Fund that is earmarked for distribution to local school districts. The principal in the fund is held in perpetuity with earnings restricted primarily to support public education.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS**Student Assistance Programs**

The Student Assistance Programs finished the year with an increase of \$23.9 million or 10.8 percent in net assets. Rising tuition and other student costs, along with rising enrollments at the State's colleges and universities, created more demand for student loans than in prior years. As a result, loans receivable increased \$198.2 million or 15.8 percent over last year. Of total net assets of \$245.0 million, \$160.7 million is restricted for use within the Student Assistance Programs by bond covenants or by federal law.

Unemployment Compensation Fund

The State's unemployment rate has decreased compared to the rate one year ago. The improving employment situation resulted in a \$100.2 million or 41.3 percent decrease in benefit payments from the prior year. This was the first time since fiscal year 2000 that employer taxes and other revenues exceeded benefit payments. Assets were sufficient to handle the demand for benefits, and net assets increased \$100.6 million or 24.4 percent, to \$512.3 million. The entire balance of net assets in this fund is restricted for paying unemployment benefits by state and federal law.

Water Loan Programs

The net assets of the Water Loan Programs increased \$24.2 million or 4.5 percent from the prior year. Additional capital for loans was provided from \$14.3 million in dedicated sales tax revenues and \$7.5 million in federal grants, in addition to net operating revenues in the fund. Loans receivable for the programs increased \$33.0 million or 7.5 percent over the prior year. Of total net assets of \$563.7 million, \$218.0 million is restricted for use within the Water Loan Programs by bond covenants or by federal grant requirements.

CAPITAL ASSET AND LONG-TERM DEBT ADMINISTRATION**Capital Assets**

The State's capital assets increased a net \$340.6 million during the year. The change consisted of net increases in infrastructure (highways) of \$284.0 million; land and related assets of \$27.4 million; and buildings, improvements, and construction in progress of \$35.7 million. Machinery and equipment decreased a net \$6.5 million during the year. Many buildings financed by the State are actually owned by the colleges and universities, which are discrete component units of the State. Therefore, while the capital assets are on the component unit's financial statements, any outstanding debt issued by the State to finance construction of those assets is

reported as a liability of the State's governmental activities. This in turn reduces unrestricted net assets. As of June 30, 2005, the State had \$109.4 million of outstanding debt related to capital assets of component units.

At June 30, 2005, the State had \$283.7 million in commitments for building projects in its capital projects funds, and \$631.9 million (\$418.4 million in the Centennial Highway Fund and \$213.5 million in the Transportation Fund) in commitments for highway construction and improvement projects. Funding for the commitments will come from existing resources in these funds and from future bond proceeds and appropriations.

The State has adopted an allowable alternative to reporting depreciation for roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). Under this alternative method, referred to as the "modified approach," UDOT must maintain an asset management system and demonstrate that the infrastructure is being preserved at or above established condition levels. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

The State's established condition level for roads is to maintain 50 percent with a rating of "fair" or better and no more than 15 percent with a "very poor" rating. The most recent condition assessment, completed for calendar year 2004, indicated that 74.7 percent of the roads were in "fair" or better condition. Only 6.2 percent of the roads assessed were in "very poor" condition. These results are similar to calendar year 2003, when 74.8 percent of the roads were assessed as "fair" or better, and 6.4 percent assessed were in "very poor" condition.

The State's established condition level for bridges is to maintain 50 percent with a rating of "good" and no more than 15 percent of bridges with a "poor" rating. The most recent condition assessment, completed in April 2005, indicated that 71.0 percent and 3.0 percent of bridges were in "good" and "poor" condition, respectively. These results reflect a slight improvement over the prior year.

During fiscal year 2005, the State spent \$362.2 million to maintain and preserve roads and bridges. This amount is 36.0 percent above the estimated amount of \$266.3 million needed to maintain these assets at established condition levels.

More information about capital assets is included in Note 8 on page 81, and more detailed information on the State's modified approach for reporting infrastructure is presented in the Required Supplementary Information on page 112.

Long-term Debt

The *Constitution of Utah* authorizes general obligation borrowing only as approved by the Legislature. The *Constitution* also limits outstanding state general obligation debt to 1.5 percent of the fair market value of all taxable property in the State, while state law further restricts outstanding state general obligation debt to no more than 45 percent of the appropriations limit. As of June 30, 2005, the State was \$249.8 million below the statutory debt limit and \$1.196 billion below the debt limit established in the *Constitution*. Revenue bonds are not backed by the general taxing authority of the State, but are payable solely from specific fees or loan repayments as pledged in the bond indentures.

State of Utah
Net Outstanding Bonded Debt as of June 30
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004 to 2005
General Obligation Bonds	\$ 1,587.8	\$ 1,588.8	\$ —	\$ —	\$ 1,587.8	\$ 1,588.8	(0.1)%
Revenue Bonds:							
State Building Ownership Auth. .	311.6	338.9	31.2	23.5	342.8	362.4	(5.4)
Student Assistance Programs	—	—	1,544.8	1,397.5	1,544.8	1,397.5	10.5
Water Loan Programs	—	—	—	1.1	—	1.1	(100.0)
Total Bonds Payable	\$ 1,899.4	\$ 1,927.7	\$ 1,576.0	\$ 1,422.1	\$ 3,475.4	\$ 3,349.8	3.7 %

The State issued \$140.6 million of general obligation bonds during the fiscal year. Of the general obligation bonds issued, \$93.6 million was for highway construction and \$47 million was for capital facility construction. In addition, the State issued a total of \$205.8 million of revenue bonds. Of the revenue bonds issued, \$54.7 million was to provide for capital facility construction and to advance refund portions of prior revenue bonds to take advantage of lower interest rates, and \$151.1 was to provide capital for purchasing student loans in the Student Assistance programs.

The State's active management of its resources has helped the State maintain its triple-A rating on general obligation bonds, the highest possible rating, and double-A rating on State Building Ownership Authority lease revenue bonds from all three national rating agencies. These ratings save millions of dollars in interest each year because the State is able to obtain very favorable interest rates on new debt. Note 10 beginning on page 85 contains more information about the State's outstanding debt.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Tax revenues are expected to continue to increase in fiscal year 2006. Consequently, original general revenue estimates for the General Fund and Uniform School Fund for fiscal year 2006 were almost identical, in total, to actual revenues for fiscal year 2005. The Legislature balanced the 2006 budget mostly by using anticipated 2005 carryover funds of \$117.7 million and utilizing other miscellaneous sources. The Legislature provided increased funding for Medicaid, roads and highways, public and higher education, and increased benefit costs for State employees. The State also provided a 2.5 percent cost-of-living adjustment to all state employees as well as an additional 2.75 percent or 5.5 percent compensation for market comparability adjustments for approximately 14,000 state employees.

Revenue collections to date in fiscal year 2006 are in line with original estimates.

Utah's economy is expected to remain stable in the near future. The average unemployment rate is expected to decline in 2005 to 4.7 percent, down from the average 2004 rate of 5.2 percent. Taxable retail sales are expected to increase 7.6 percent by the end of 2005, and growth in personal income is expected to be 7.3 percent for the same period. Because these indicators are measured on a calendar-year basis, the impact on the State budget will not be fully realized until well into fiscal year 2006.

CONTACTING THE STATE'S DIVISION OF FINANCE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Division of Finance, Financial Reporting Section at (801) 538-3082 or visit our Web site at: www.finance.utah.gov.

The preceding discussion and analysis focuses on the State's primary government operations. With the exception of a few nonmajor component units, the State's component units each issue separate audited financial statements that include their respective management's discussion and analysis. Component unit statements may be obtained from their respective administrative offices or from the Utah State Auditor's Office, Utah State Capitol Complex, East Office Building, Suite E310, Salt Lake City, UT 84114.